مصرف لبنان
BANQUE DU LIBAN

Overview of the Recent Monetary, Banking, and Financial Developments in Lebanon

2008

Lebanon had a good year in 2008, both at the real and financial sector levels, showing political and security improvements and weathering the worst global financial storm. Real GDP growth reached 7%, one of its best performances in more than a decade, while inflation ranged between 8 and 10%. Both indicators are likely to slow to around 4% in 2009 due to expected global recession.

The BDL continuous commitment to exchange rate stability remains key for maintaining financial stability. The growing confidence in the local currency generated persistent conversions from the dollar into the pound, thus boosting the BDL foreign assets to a new historical high exceeding US$20bn. While complying with market tendencies, interest rates are maintained at appropriate levels to spur capital inflows, rapid dedollarization and a strengthening of the external position. Remittances from expatriates recorded US$6bn in 2008, leading to a BOP surplus of US$3.4bn. The interest rate differential in favor of the pound brought the level of dollarization from 77% at end-2007 to 69% at end-2008.

The Lebanese banking system was largely insulated from the effects of the global financial crisis, thanks to a tradition of conservative regulation and prudent supervision by the BDL over the last fifteen years. The BDL has regulated structured products and derivatives, forbidding the acquisition of subprime mortgage debt. It has also tackled the problem of non-performing loans and helped weak banks merging with bigger ones, thus refusing any act that might cause bankruptcies or losses to depositors. In order to maintain high liquidity levels, banks were required to keep at least 30% of their assets in cash. Recently in 2008, the BDL set tight ceilings on loans for real estate projects in order to prevent a real estate bubble.

Customer deposits, which recorded their highest growth of 15% in 2008, are the main driving force behind Lebanese banking activities. With profits growing by 30%, total equity of banks exceeded US$7bn, and the average capital adequacy ratio reached 12%, in compliance with Basle II. Likewise, loans to the private sector grew by 22%, to US$25bn at end-2008. In order to stimulate lending in Lebanese pounds, the BDL is currently working on measures for decreasing the cost of borrowing through more exemptions on obligatory reserves, with the government studying a set of other measures.

Lebanese capital markets were not as affected by the global crisis as other emerging markets that witnessed huge sell-offs. While the outlook on Lebanon's sovereign ratings has been improved in December 2008, the country's continuous resilience has also pushed international rating agencies to upgrade Lebanese government bond ratings in April 2009, especially that Lebanon has successfully concluded a new swap operation to rollover Eurobonds maturing in 2009.

The Lebanese financial sector will always be marked by soundness and strength, provided the political and financial climates remain stable. At present, Lebanon should seize the opportunity to build a modern and dynamic economy that supports productive investments, enhances job creation and improves the purchasing power. While fiscal finances remain the most significant weakness factor, structural reforms should be urgently implemented, coupled with a genuine political will.